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Dear Shareholder,

Result for the half-year ended 31 December, 2014
Argo Investments Limited ("Argo" or "the Company")

The Directors are pleased to report an increased profit for the half-year ended 31 December, 2014 and a lift in the interim dividend to 14 cents per share fully franked.

| Summary of financial results | Half-year to 31.12.14 | Half-year to 31.12.13 | change |
|--|----------------------------------|----------------------------------|---------------|
| Profit | \$104.8 million | \$101.9 million | +2.9% |
| Earnings per share | 15.8 cents | 15.8 cents | - |
| Interim dividend per share | 14.0 cents | 13.5 cents | +3.7% |
| Net tangible asset backing (NTA) per share | \$7.36 | \$7.31 | +0.7% |

Overview

Argo's half-year profit increased by 2.9% on the previous corresponding half-year to \$104.8 million and its earnings per share was unchanged at 15.8 cents per share. The Company received increased dividends and distributions from the investments in its portfolio, partially offset by a slight decline in interest income on cash deposits, due to lower balances of cash on hand and the lower interest rates available during the half-year.

This result included \$4.0 million of special dividends from Harvey Norman, Suncorp Group and Wesfarmers. This compares to \$2.1 million of special dividends and \$6.9 million of non-cash, one-off income items in the previous corresponding half-year. Excluding these special dividends and one-off items, profit increased by 8.5% and earnings per share increased by 5.6%.

Sharp falls in commodity prices led to steep declines in the share prices of many companies in the mining and energy sectors over recent months, which impacted a number of stocks in Argo's portfolio. The investment portfolio returned 4.5% for the calendar year, while the total shareholder return was 10.1%. This compares with the S&P/ASX 200 Accumulation Index return of 5.6% for the same period.

Initial public offering (IPO) activity continued to be a feature of the Australian share market, with Argo participating in several new floats. In addition to Medibank Private, which was the largest portfolio purchase made during the half-year, new long-term positions were acquired via the IPOs of Australian Careers Network, Regis Healthcare and SurfStitch Group.

Investment portfolio

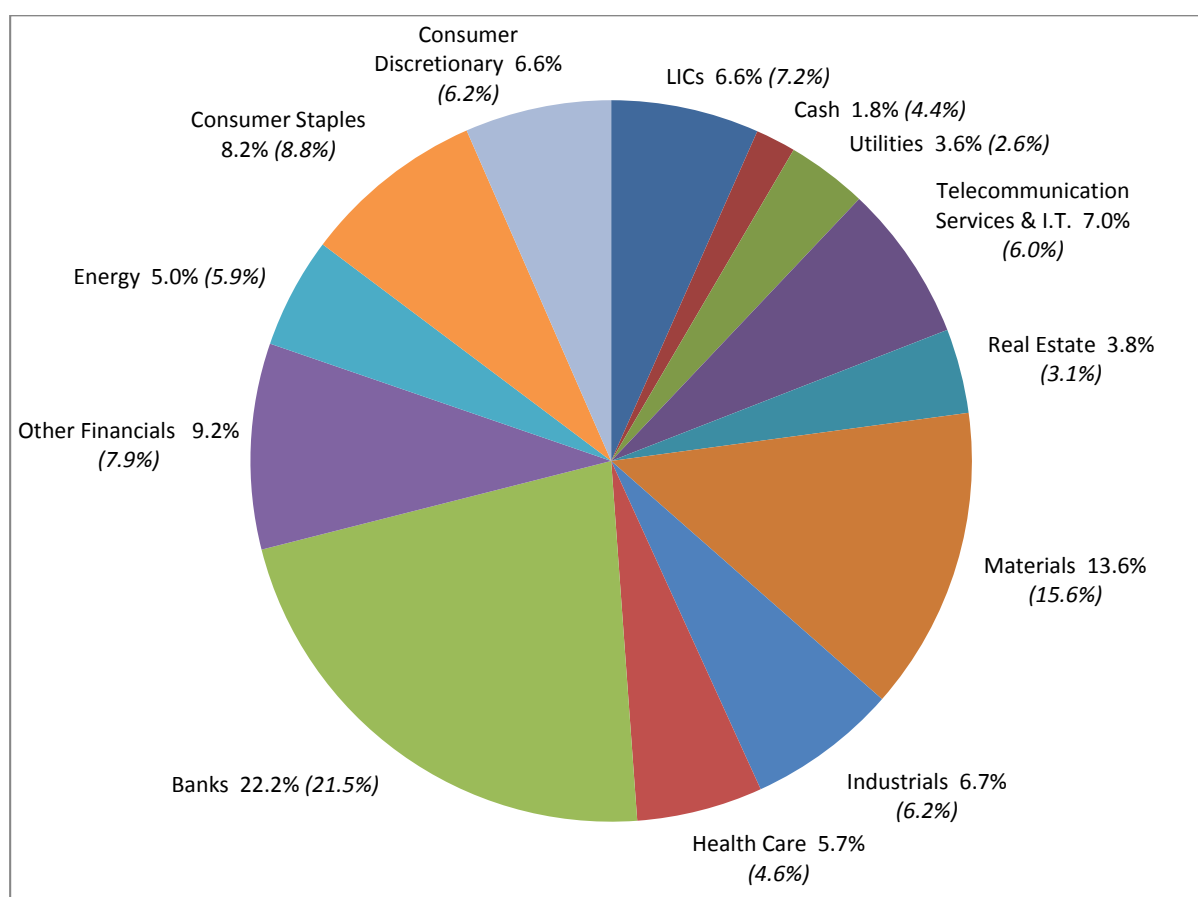
During the half-year, \$215 million was spent on long-term investment purchases, partly funded by \$61 million in disposals.

The largest purchases were Medibank Private, APA Group, Santos, Commonwealth Bank of Australia, Asaleo Care and Telstra Corporation.

The largest sales were a reduction in the Milton Corporation holding, the acceptance of the takeover offer for David Jones, and the fully exited positions in News Corporation and Orora.

The cash balance at the end of the calendar year was \$89 million, representing 1.8% of the Company's total assets of \$4.9 billion. The number of stocks held in the portfolio increased slightly to 104.

There have been larger than normal shifts in the sector allocation of the portfolio during the 2014 calendar year. This is primarily due to the weakness of share prices in the energy and materials (especially mining) sectors relative to the rest of the market, which has reduced our portfolio weighting in those areas. In addition, we have deployed some of Argo's cash balance into our preferred sectors during the year, increasing the portfolio weighting in health care, utilities and other financials in particular. The following chart shows the portfolio's sector diversification at 31 December, 2014, with last year's comparative figures at 31 December, 2013 also shown in brackets:



Interestingly, the sector composition of the broader market has changed significantly in recent years. For example, the larger resources (including energy) companies made up almost one-third of the S&P/ASX 200 Index in 2011, but this proportion had fallen to less than 15% by the end of 2014. Conversely, the financials (ex-real estate) and health care sectors now comprise 39% and 6% of the Index respectively, their highest ever weightings.

Investment performance

The following table provides annual return statistics for Argo's portfolio, its share price and the relevant share market index for various periods ended 31 December, 2014. It should be noted that Argo's portfolio performance (measured by the movement in NTA per share assuming dividends paid are reinvested) is calculated after deducting all administration expenses and tax, whereas share market indices do not take account of these costs.

| | <i>1 year</i> | <i>3 years</i> | <i>5 years</i> | <i>10 years</i> | <i>15 years</i> |
|--------------------------------|---------------|----------------|----------------|-----------------|-----------------|
| Argo portfolio return | +4.5% | +15.4% | +6.6% | +7.1% | +9.3% |
| Argo share price return | +10.1% | +20.2% | +7.1% | +8.1% | +10.3% |
| S&P/ASX 200 Accumulation Index | +5.6% | +15.1% | +6.8% | +7.6% | +8.2% |

The stocks in the portfolio which contributed most positively to performance during the half-year were Twenty-First Century Fox, Ramsay Health Care, Lend Lease Group, APA Group, Medibank Private and Sydney Airport. Negative contributors were largely energy related, and included Santos, MMA Offshore, Origin Energy and ALS.

Net tangible asset backing

As a long term investor, Argo does not intend to dispose of its long-term investment portfolio. Therefore, when calculating net tangible asset backing (NTA), Argo values its portfolio using the market price of each listed holding, without providing for estimated tax on gains that would be realised if the holdings were to be sold. At 31 December, 2014, this valuation resulted in a NTA per share of \$7.36. However, if estimated tax on unrealised gains in the portfolio was to be deducted, the NTA per share at 31 December, 2014 would have been \$6.49.

Both NTA figures are updated monthly and announced to the Australian Securities Exchange (ASX).

Argo's share price continues to trade at a premium to NTA, closing on 31 December, 2014 at \$7.76, a premium of 5.4% to NTA.

Interim dividend and Dividend Reinvestment Plan

The Directors have announced an increased interim dividend of 14 cents per share fully franked.

The Dividend Reinvestment Plan (DRP) will apply to the interim dividend for those shareholders with registered addresses in Australia or New Zealand who elect to participate. Shares issued under the DRP will be priced at a discount of 2% to the volume-weighted average price of Argo shares traded on the ASX between 12 February and 17 February, 2015 inclusive. The following dates apply to the interim dividend and DRP:

| | |
|---|----------------------------|
| - Ex-dividend date for trading in Argo shares on the ASX | Thursday 12 February, 2015 |
| - Record date for dividend entitlement | Monday 16 February, 2015 |
| - Last day for amendment of DRP participation (election date) | Tuesday 17 February, 2015 |
| - Dividend payment date | Wednesday 4 March, 2015 |

Please note that Argo's share registry operations are managed by Computershare Investor Services Pty. Limited, and DRP participation instructions can be updated online at www.investorcentre.com. Registering your holding online with Computershare also allows you to elect to receive communications from Argo electronically rather than by post. Computershare can also be contacted by telephone on 1300 350 716.

Outlook

Global macro-economic uncertainty has unwound a positive start to the 2014/15 financial year, with the Australian market falling over 5% during the December quarter. Australian earnings expectations continue to be revised downwards in the wake of significant commodity price falls. The iron ore price suffered a 47% decline during 2014 to trade under US\$70 per tonne, having averaged over US\$120 per tonne for the previous three years. The oil price fell even more rapidly, dropping 48% in the December quarter and continuing to fall into 2015.

There is a growing economic divergence between the US and many other developed countries. The US economy is strengthening, leading to a stronger US dollar and potentially higher interest rates. This is in stark contrast to the continued aggressive easing of monetary policy in both the EU and Japan.

These events have created a volatile, and more difficult to navigate, investment environment. Whilst the defensive, higher yielding sectors such as banks and utilities, and offshore earners, are trading at or near all-time highs, other sectors have lagged significantly.

In Australia, many of the themes that emerged in 2014 appear to have sufficient momentum to continue into 2015. We expect that business activity and investment will continue to rotate towards non-mining sectors, as mining related capital expenditure continues to fall. The unemployment rate, approaching a 12-year high, may continue to climb and remains a risk to consumer spending. However, the housing market is likely to remain robust, supported by continued accommodative monetary policy. In addition, the long-awaited fall in the Australian dollar occurred towards the end of 2014, falling to US\$0.81 on 31 December, which bodes as a potential positive for the Australian economy in 2015.

We expect IPO activity to continue into 2015, but at a reduced pace to that seen in 2014, when 61 new companies were listed, raising over \$14.6bn.

Argo has cash reserves of \$90 million and remains cautious regarding the short-term outlook and volatility of markets. We look forward to meeting with our investee companies over the upcoming corporate results reporting season to review how their businesses are adapting to the current economic conditions.

Yours faithfully,
ARGO INVESTMENTS LIMITED



Jason Beddow
Managing Director